

Retirement Age and Labour Market Outcomes

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Abstract

It is well known that the combination of lower fertility rates and longer life expectancies is challenging the sustainability of pension systems across the world. Among the policies under consideration to deal with this problem, raising the retirement age is possibly the most effective option, having already been implemented in some countries.

While the direct effect of requiring people to stay longer in the labour market is straightforward, there may be additional indirect effects of relevance. In this paper, we look into a set of possible labour market impacts, namely hiring policy, workers exit rates, and wages. Indeed, one possible response of firms that are forced to keep workers beyond the period they initially assumed is to postpone new hirings, particularly, of younger workers. Also, since the decisions to keep the older workers are not necessarily productivity-based, but imposed upon firms and workers by the new retirement age, it is plausible that (relative) wages are negatively affected.

Our empirical analysis is based on the legislative reform introduced in Portugal that, in the period 1994 to 1999, increased the women's retirement age by six months each year, raising it from 62 to 65 years, while maintaining men's at 65 years. We use a very detailed matched employer-employee panel data covering the entire population of firms and their workers in Portugal. We then identify the impact of the raise of the retirement age of women upon hiring levels and hiring rates by comparing firms with different shares of women approaching retirement age, while controlling also for the shares of older men in those firms. Moreover, we also conduct a difference-in-differences analysis, by subtracting from the effects found for the year of the reform the results for the same firms but from previous years, when no reform was implemented.

The analysis in terms of the impact on wages explores primarily the longitudinal nature of the data to compute difference-in-differences estimates, having as control groups men in the same age group as the women affected by the new retirement law. The robustness of our results is then assessed by conducting a regression-discontinuity analysis around the new retirement ages (62.5, 63, etc) in each of the transition years to the new retirement age.

We also consider different econometric analyses, including tobits and duration models, and complementary data with information on inactive workers. Finally, we discuss the role of early retirement and conduct robust checks based on different measures of the number of women per firm affected by the higher retirement age.